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Research Report

From export ban to export acceleration: Why cooking oil price interventions were ineffective

Policy Brief, No. 16

Provided in Cooperation with:

Center for Indonesian Policy Studies (CIPS), Jakarta

Suggested Citation: Amir, Mukhammad Faisol; Nidhal, Muhammad; Alta, Aditya (2022) : From export ban to export acceleration: Why cooking oil price interventions were ineffective, Policy Brief, No. 16, Center for Indonesian Policy Studies (CIPS), Jakarta

This Version is available at:

<https://hdl.handle.net/10419/297872>

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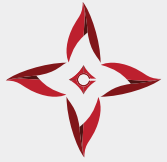
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Policy Brief No. 16

From Export Ban to Export Acceleration: Why Cooking Oil Price Interventions Were Ineffective

by Mukhammad Faisol Amir, Muhammad Nidhal & Aditya Alta

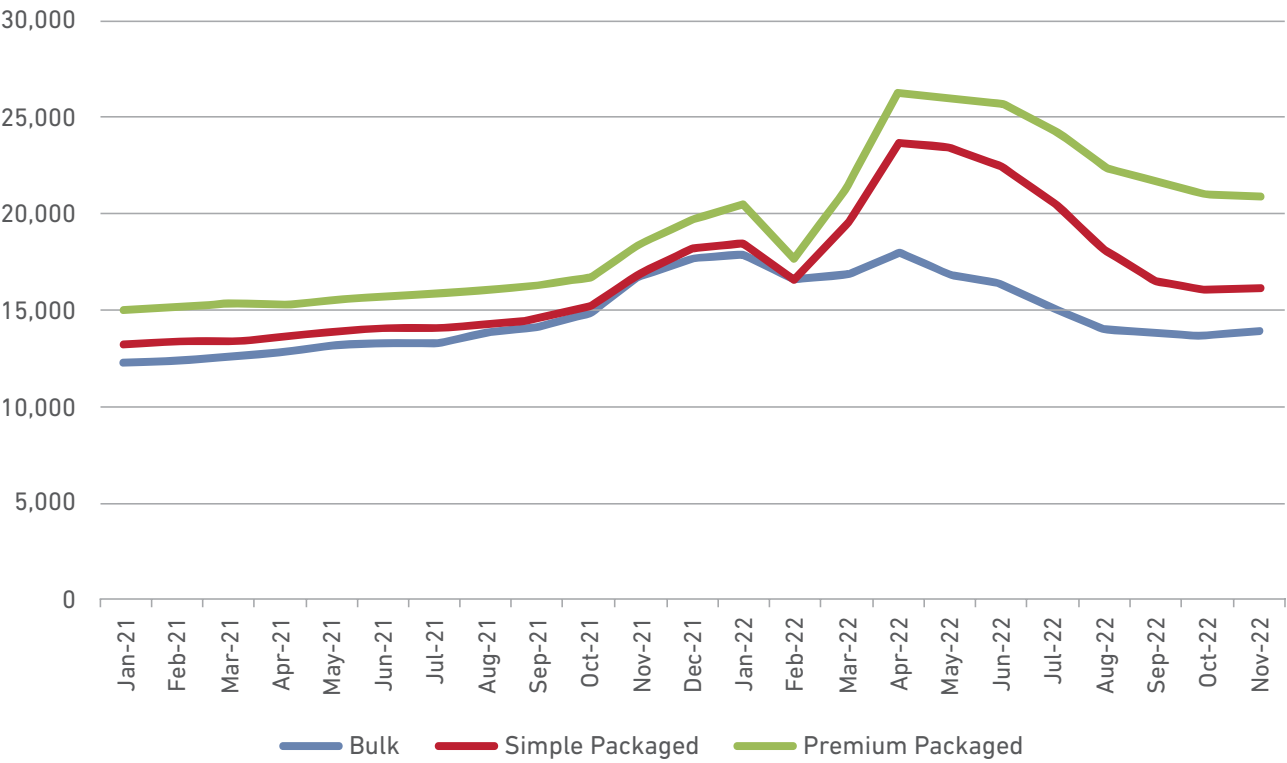


Palm oil is the world's most widely used vegetable cooking oil. Indonesia and Malaysia produce 57% and 27% of palm oil available in the global market, respectively (Ritchie & Roser, 2021). In addition to being a popular source of cooking oil, palm oil is also processed into biodiesel and used as an ingredient for processed foods, detergents, and cosmetics. In Indonesia, palm oil is used for food (48.59%), biodiesel (39.85%), and oleochemical (11.51%) with a total crude palm oil (CPO) and crude palm kernel oil (CPKO) production of 51.3 million tons in 2021, which is projected to increase to 51.8 million tonnes by the end of 2022 according to the Indonesian Palm Oil Association or GAPKI (Mahadi, 2022; GAPKI, 2022).

Though food use is still dominant, palm oil consumption for biodiesel shows an increasing trend throughout the years, growing at a rate of 26.40% in the last 5 years due to the government's mandatory B30 policy (Statista, 2021; GAPKI, 2022). The policy stipulates that 30% palm-oil based fuel goes into its biodiesel to lower the country's fuel imports and boost domestic production of palm oil. On the other hand, most palm oil derivatives (CPO, palm kernel oil (PKO), and their derivatives) produced in Indonesia are exported (65%), while only 35% are intended for domestic use (Katadata, 2022; GAPKI, 2022). This situation creates tensions between alternative uses of palm oil, supplies for the global market, and domestic consumers.

As a globally traded commodity, cooking oil prices in Indonesia are directly affected by international CPO prices. Throughout 2021 and continuing into 2022, global CPO prices significantly increased, which may be attributed to the increasing global demand for biofuel due to the economic recovery, while facing declining productivity of oil palm plantations in Indonesia and Malaysia (Nafisah & Amanta, 2022). As a result, domestic bulk cooking oil prices (Figure 1) in Indonesia increased significantly from IDR 12,300 per liter in January 2021 to IDR 17,700 per liter in December 2021. They peaked in April 2022 at an unprecedented IDR 18,000 per liter. Despite a gradual decline from April 2022 onward, the price level remained higher than at the end of 2021. Consequently, and despite its essential importance, affordable cooking oil was hardly available in the market.

Figure 1.
Prices of Palm Cooking Oil in Indonesia, 2021-2022 (IDR Per Liter)

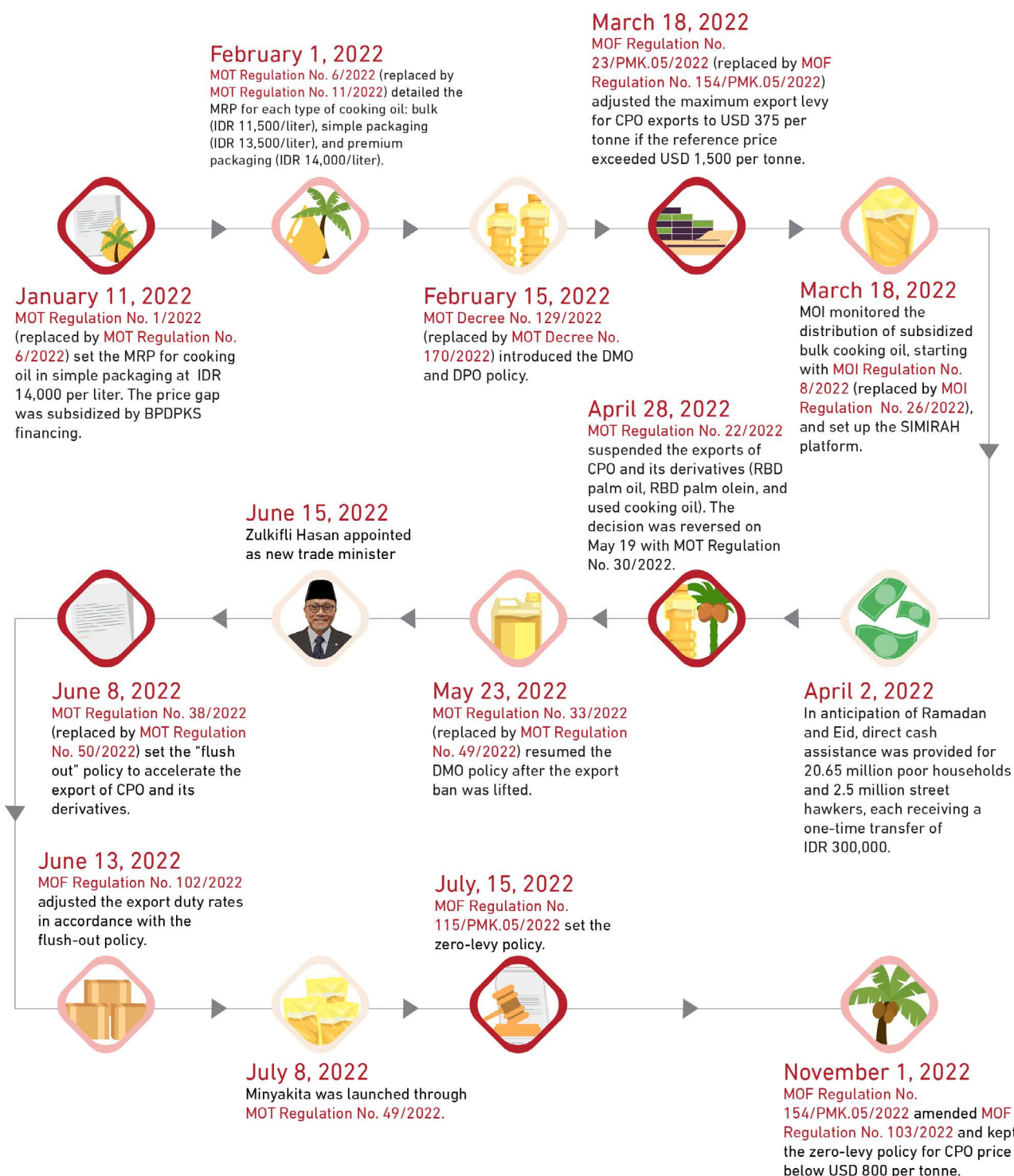


Source: Market and Basic Needs Monitoring System of the Ministry of Trade or
Sistem Pemantauan Pasar dan Kebutuhan Pokok Kementerian Perdagangan (SP2KP), 2022 processed by authors

Frequent Policy Changes Throughout 2022

Throughout 2022, the Ministry of Trade (MOT), Ministry of Industry (MOI), and Ministry of Finance (MOF) implemented a series of measures to respond to the soaring prices and to ensure the availability of affordable cooking oil supplies. At the time of writing, at least 21 ministerial regulations – 14 from MOT, three from MOI, and four from MOF had been issued in 2022 to regulate palm oil exports, pricing, and supplies in the domestic market. The timeline of policy changes is presented in the following infographic prepared by the Center for Indonesian Policy Studies (Figure 2).

Figure 2.
Cooking Oil Policy Timeline, 2022



On January 17, 2022, the government imposed a Maximum Retail Price (MRP) on cooking oil through MOT Regulation No. 6/2022. It aimed to keep prices in check for cooking oil sold in bulk, simple packaging, and premium packaging¹ (Sekretariat Kabinet RI, 2022a). The MRP was set at IDR 11,500 per liter for bulk cooking oil; IDR 13,500 per liter for cooking oil in simple packaging; and IDR 14,000 per liter for cooking oil in premium packaging. This policy, however, was short lived as it was replaced in March with MOT No. 11/2022, which imposed an MRP only on bulk cooking oil while the prices for cooking oil in simple and premium packaging were left to the market mechanism. This move was seen by many commentators and the media as an indication of the government giving up on protecting the consumers through price control (Al Hikam, 2022; DPR RI, 2022; Ramadhan, 2022).

To ensure bulk cooking oil was available at the MRP price, the MOT started to implement Domestic Market Obligation (DMO) and Domestic Price Obligation (DPO) policies in the first quarter of 2022. The DMO policy required 30% of the export volume of crude palm oil (CPO) and refined, bleached, and deodorized (RBD) palm olein, which are the inputs for cooking oil, to be distributed in the domestic market. It also required exporters and producers to be registered in the Bulk Cooking Oil Information System (SIMIRAH)². The DPO mandated the domestic selling price of CPO and RBD palm olein to ensure affordable prices.

As the problems persisted, MOI began to be involved in March. The ministry wanted to improve the bulk cooking oil distribution to meet the needs of end consumers and Micro and Small Enterprises (MSEs) (MOI Press, 2022). Unlike MOT, which had intervened to prevent CPO from being exported and to stabilize domestic prices, MOI intervened in the cooking oil distribution channels. Through MOI Regulation No. 8/2022 on the Provision of Bulk Cooking Oil for Community Needs, Micro Enterprises, and Small Businesses within the Financing Framework by the Indonesian Palm Oil Plantation Fund Management Agency (*Badan Pengelola Dana Perkebunan Kelapa Sawit* or BPDPKS), it attempted to control and supervise subsidized bulk cooking oil distribution. All bulk cooking oil producers were required to register in SIINas³ to obtain a license to distribute bulk cooking oil at the MRP price and receive a subsidy to recoup the difference between the market price and the MRP. While subsidized cooking oil made it to the market, its supplies were severely limited. It was rarely seen in most modern and traditional markets, and consumers had to wait in long queues to get cooking oil at the affordable price promised by the government (GAPKI, 2022).

To maintain people's purchasing power during Ramadan and ahead of Eid al-Fitr in May 2022, the government distributed direct cash assistance for cooking oil in April. The targeted recipients were 20.65 million poor households and 2.5 million street hawkers, stall owners, and fishermen (PKLWN). Each recipient received a one-time transfer of IDR 300,000 (about USD 20) (CMEA, 2022; Sukmana, 2022).

The crisis peaked when the MOT on April 28, 2022 suspended palm oil exports and its derivatives through MOT Regulation No. 22/2022. The banned commodities included CPO; Refined, Bleached, and Deodorized Palm Oil (RBD Palm Oil); Refined, Bleached, and Deodorized Palm Olein (RBD Palm Olein); and Used Cooking Oil (UCO). The government's rationale behind the temporary ban was to restore domestic palm cooking oil prices to IDR 14,000 per liter and accelerate its distribution throughout the nation (Sekretariat Kabinet RI, 2022c).

¹ Bulk type refers to refined, bleached, & deodorized (RBD) palm olein sold unpackaged, and neither have labels nor brands. It has a cloud point grade 12 (CP12) and does not go through any RBD palm olein filtering process. Simple packaging refers to RBD palm olein CP10 packaged in more economical packaging like pouch or sachet, which has gone through a one-time filtering process. The government has also marketed this type of cooking oil under the Minyakita brand. Premium packaging refers to RBD palm olein with the lowest CP (CP8 and CP6) sold in a more premium, rigid packaging. This cooking oil has been filtered more than once and usually has added vitamin A.

² SIMIRAH was developed by the MOI, based on MOI Regulation No. 27/2022, to support the affordable bulk cooking oil program. SIMIRAH functions as a digital platform that can be accessed by business players in implementing the MGCR program. SIMIRAH is part of SIINas.

³ SIINas (*Sistem Informasi Industri Nasional* or National Industrial Information System) is a system developed by MOI to receive data easily and quickly from private companies.

The export ban harmed farmers due to the drop in the price of fresh fruit bunches (FFB) from IDR 4,800 to IDR 1,000 (Betahita, 2022). According to a statement by the Indonesian Palm Oil Growers Association (*Asosiasi Petani Kelapa Sawit Indonesia* or APKASINDO), farmers lost IDR 11.4 trillion (approximately USD 750 million) within 20 days since the CPO export ban was implemented. Furthermore, 6.58 million tonnes of FFB were reported to be damaged due to not being absorbed by the refineries (CNN Indonesia, 2022).

Not too long after the export ban was implemented, it was lifted again by the Indonesian President on May 19, 2022. President Widodo claimed that after the export ban, domestic supplies reached 211,000 tonnes a month, which exceeded the domestic needs and made the ban no longer necessary (Sekretariat Kabinet RI, 2022d). The export ban was lifted through MOT Regulation No. 30/2022. It was however succeeded by the reenactment of the DMO policy on May 23 through MOT Regulation No. 33/2022.

In June, the government issued MOT Regulation No. 38/2022 on Program to Accelerate the Distribution of CPO, RBD Palm Oil, RBD Palm Olein, and UCO Through Exports, also known as the 'flush-out policy'. The program allowed participating CPO exporters to be exempted from the obligation to supply domestic cooking oil on the condition that they paid an additional fee of USD 200 per tonne on top of the export duty (USD 288 per tonne at the time) and levy (USD 200 per tonne at the time)⁴ (MOF Regulation No. 102/PMK.05/2022). As its name suggests, the flush-out policy was intended to boost the absorption of oil palm fruits in the hope of increasing their prices for the benefit of domestic farmers. The program ran between June-July 2022 and was intended to allocate export permits for at least one million tonnes of CPO.

Additionally, the following policies have been implemented in the wake of lifting the export ban:

1. In July 2022, to further boost CPO exports and increase the fruits price for farmers, the government implemented a zero-levy policy⁵ through MOF Regulation No. 115/2022 (MOF, 2022). The new zero export levy rate was effective from July to October (MOF, 2022). Starting 1st November 2022, it was still in effect but capped at a CPO price of USD 800 per tonne (MOF Regulation No. 154/PMK.05/2022).
2. Following the DMO reenactment, MOT released an affordable cooking oil brand called Minyakita⁶ under MOT Regulation No. 41/2022. The MOT-owned brand uses DMO-sourced supplies to provide cooking oil in simple packaging at an MRP price of IDR 14,000 per liter (MOT, 2022). However, since its announcement in July, Minyakita has apparently not affected the prices of cooking oil, which have remained above the MRP. Between July and November 2022, the average retail price for cooking oil in simple packaging was IDR 17,460 per liter. This was 14.09% higher than during the same period the year before (SP2KP, 2022). Further, Minyakita was initially found in several e-commerce platforms sold at prices ranging from IDR 16,000 per liter to more than 40,000 per liter, exceeding the guaranteed MRP (Widyastuti, 2022; Safitri, 2022). At the time of writing, both the DMO and Minyakita are still in effect.

⁴ See Footnote 5 on the difference between an export levy and an export duty.

⁵ Exporters of CPO, its derivatives, and several other oil palm-related products must pay both the export levy and the export duty. An export levy (*pungutan ekspor*) refers to the fee paid to the Oil Palm Plantation Fund Management Agency (BPDPKS). As the name suggests, the agency manages and disburses the Oil Palm Plantation Fund—funded by the levies—for several programs intended to develop the palm oil sector, such as biodiesel and replanting for smallholder farmers. The levy is thus different and separate from the export duty (*bea keluar*), which is state revenue. The export duty was still payable under the zero-levy policy.

⁶ Minyakita is an oil trademark for simple packaged cooking oil owned by the MOT and registered with the Ministry of Law and Human Rights. The MOT allows cooking oil producers and packagers to use Minyakita brand or packaging with a validity period of four years, and the license to use it can be extended.

Lessons Learned and the Way Forward for Cooking Oil Governance

As the cooking oil crisis shows, resorting to protectionist means such as the export ban does more harm to consumers and producers alike and is not sustainable in the long term. The interventions failed to give poor populations access to affordable supplies as shortages remained commonplace. Meanwhile, frequent policy changes and a heavy-handed approach to the crisis frustrated producers and confused Indonesia's trade partners. In summary, the export ban led to several unintended consequences as follows:

- The export ban caused the price of fresh fruit bunches (FFB) to fall by 40-70% (Sari, 2022), therefore upsetting farmers who lost around IDR 11.40 trillion in 20 days since its implementation. Critics say that the government's CPO export ban did not take into account the costs borne by the economy, especially the adverse impacts for the 17 million palm oil farmers amid very attractive global palm oil prices (Emeria, 2022; Amirullah, 2022). In addition, the export ban increased tensions between farmers and the government leading to demonstrations in 22 Indonesian provinces (CNN Indonesia, 2022).
- The short-lived export ban further spiked the international price of palm oil by more than 200% (Strangio, 2022) and affected the global edible oil supply amid the ongoing global crises of the Russian war in Ukraine, the Covid-19 outbreak, and the climate crisis (Medina, 2022). It affected food security for countries dependent on Indonesia's CPO. Pakistan, which imports 90% of its CPO from Indonesia, experienced a serious shortage (Jakarta Globe, 2022). India also expressed concern at the World Trade Organization (WTO) over "trade barriers" generated in part by Indonesia's palm oil export ban (Al-Jazeera, 2022). The policy, therefore, hurt Indonesia's international standing and was ill-advised, considering Indonesia's image as a reliable trade partner and its presidency of the G20 in 2022 (International Finance, 2022).
- As a result of the cooking oil policy flip-flop during the first quarter of 2022, the country experienced a sizable opportunity loss, both from a decline in foreign exchange, government revenues, and domestic consumption as well as from an increase in domestic oil stocks. The value of opportunity loss from foreign exchange alone is estimated at USD 4 billion (PASPI, 2022). Exports of CPO and its derivatives are Indonesia's largest foreign exchange contributors accounting for USD 15 billion in January-September 2020, which helped Indonesia maintain a trade surplus during the pandemic (GAPKI, 2020).
- Heavy-handed actions like the export ban open rent-seeking and corruption opportunities from public officials and palm oil producers. In particular, the cooking oil crisis turned into a fiasco as five government and business employees, including MOT's Director General of Foreign Trade at the time, were accused of corruption in the illegal issuance of export permits to several palm oil producers (Ekonomi Bisnis, 2022). The crime caused an estimated IDR 18.3 trillion in state losses (Wibowo, 2022). Corruption cases are not only financially detrimental, but they also reduce public trust in the government to deal with the issue.
- Attempts to control prices and domestic supplies encouraged attempts to circumvent the law. Local authorities in Palu and Lebak found wholesalers hoarding 24,000 liters of cooking oil in an attempt to drive prices above the MRP (Darmawan, 2022). An attempt to smuggle 21,985 tonnes of cooking oil across the border to Timor-Leste was uncovered by local authorities in East Java (Chaterine, 2022).
- To ensure compliance, the DMO and distribution of subsidized cooking oil was excessively regulated, resulting in hampered flows of the cooking oil from producers to the market. Producers had to go through complicated bureaucracy to register and receive the subsidies, including presenting a detailed list of distributors and retailers, and collecting and validating invoices for each sale. The process was subject to state audit, with any error potentially punishable by prison sentence (Christina & Nangoy, 2022; Lingga, 2022).

With the war in Ukraine ongoing and food exports from Russia and Ukraine uncertain for the foreseeable future (Baffes, 2022), it is not unlikely that Indonesia will be faced once again with the need to guard its domestic food security interest. In a policy issue as complex as food security, the government should implement smart policies that go beyond outright prohibition, combine trade and non-trade policy tools, and focus efforts on assisting vulnerable populations. In the long run, this requires addressing the following areas:

- Instead of an outright ban, a “smarter” approach in the short run would be to rely on adjusting taxes, levies, and subsidies to encourage domestic distribution and disincentivize outflows. To some extent this was done, but the actions were only taken late into the crisis and after a number of initial missteps.
- To provide certainty to market players, the government should only intervene when certain thresholds are achieved, such as lower and upper reference prices for CPO. If prices stay within the price band, market mechanisms should prevail, and the government should refrain from intervening.
- Energy policy, especially regarding the use of palm oil in biodiesel mix, forms a glaring omission in the government’s responses throughout 2022. Palm oil use for biodiesel tends to increase throughout the years, as seen in the mandatory biodiesel mix policy, as well as subsidies given to the sector financed by the palm oil plantation funds. In 2021, the Indonesian Palm Oil Plantation Fund Management Agency (BPDPKS) allocated at least 80% of their funds for biodiesel subsidies (Hermawan, 2022). BPDPKS also distributed increasingly large subsidies to biodiesel producers since the start of the B30 program in 2020. If this continues, biodiesel is likely to take over and exceed the CPO consumption for food in one or two years (Basri, 2022). The government should consider relaxing this policy during a CPO price hike and diverting the export levies to protect the consumers. This requires coordination with the Ministry of Energy and Mineral Resources.
- Instead of trying to make affordable cooking oil available for all, the government should focus on protecting vulnerable consumers through targeted cash assistance. While this has been done in anticipation of Ramadan, the frequency and amount could have been increased to support consumption throughout the crisis. This requires coordination with the Ministry of Social Affairs and increased financing, for example, from export levies and temporary reallocation of the biofuel subsidy.

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